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Clinton's Fiscal Fiction Defrauds Social Security and Taxpayers

Clinton's Latest Budget: Honestly Phony

No doubt Clinton's budgeteers this year hope observers of their FY2000 budget will fail to see the forest for the trees. Yet, despite its five volumes and 2,600 pages of details on millions of provisions and trillions of dollars, readers may focus on just three critical points.

- ▶ First, note **the double-counting**: Clinton's budget defrauds Social Security by pretending to have given it enhanced financial security — yet while failing to push back *by a single day* the time when it will be unable to pay its bills with real dollars.
- ▶ Second, note the **\$1.7 trillion in new government programs and the budgetary sleight-of-hand** which allows for potentially trillions *more* in new spending which we'll further explain in this paper.
- ▶ Third, see that despite a \$4.5 trillion anticipated surplus, the **failure of this president to provide a single significant tax cut** for today's overburdened taxpayers.

No need to get lost in the details: rather, note what already has been lost — the opportunity for the President to provide leadership in the areas of Social Security, fiscal responsibility, and America's long-term economic security.

What Clinton's Budget Does and How He Does It

Clinton relies on two devices to accomplish his budget deception: the largely irrelevant Social Security trust fund; and, the three different ways of computing the federal budget. However, the simplest way to view this financial legerdemain is to note the double-counting. Clinton's budget credits Social Security with an additional \$2.8 trillion over the next 15 years — *in addition to* the \$2.3 trillion its trustees already have accounted for. And, then this money is theoretically to be held in abeyance — thus allowing it (as if it really were in some account) to garner interest savings by paying down the debt. But, in fact this money is still technically available for spending.

Defrauding Social Security

By focusing the attention on the Social Security trust fund, Clinton shifts the attention away from the operation of the program itself. When we review how Social Security really works, we see Clinton's plan is pure fiction at best, and fraud at worst.

- The Social Security program operates on a pay-as-you-go basis, meaning simply that current tax receipts pay current benefits.
- Any additional money beyond that needed to pay current benefits is credited to the trust fund, which is given special government securities that are in fact I.O.U.'s for future payment.
- The trust fund holds promises from the government that it will pay but the government itself relies on its future tax revenues or borrowing to make these payments.
- Beginning in 2013, Social Security receipts will not meet the program's obligations; when that happens, the government will have to cut spending, tax or borrow to meet its commitments.

Clinton's plan essentially issues more I.O.U.s to the trust fund, but it *in no way* changes the fundamental fact that in 2013, the overall system will be in deficit.

Double-counting for Double-spending

Next, Clinton takes advantage of the fact that the federal government essentially uses two different sets of books, that is the unified budget (i.e., the budget including Social Security's surplus/deficit), and the on-budget books (i.e., without Social Security). Interplaying between these two different sets of books, Clinton is able both to inflate the surplus, and still to allow himself access to the \$2.8 trillion he has "committed" to Social Security. Essentially, on one of these sets of books, he produces balance; on the other — the one he's not talking about — he hides a \$2.3 trillion deficit. [See tables on p. 3.]

According to Clinton's calculations, the federal government will run a total \$4.5 trillion surplus over the next 15 years — composed roughly of \$500 billion from the excess of Social Security tax revenues over outlays, and of \$4 trillion from non-Social Security revenues over non-Social Security outlays. Of this \$4 trillion, \$1.8 trillion is owed to the Social Security trust fund as interest on its accumulating balance of excess revenues over outlays; however, since this money simply shifts from one set of government books to another, it remains part of the overall federal government surplus. The same holds true for Clinton's \$2.8 trillion credit to Social Security. Thus, even after deducting the \$1.7 trillion Clinton committed in his State of the Union speech to new government programs (for Medicare spending, USA accounts, domestic, and defense spending) — depending on how it is counted, and how much you trust the President — there remains anywhere up to \$2.8 trillion for additional new spending. Yet, because Clinton does not yet commit this money, he can claim credit for reducing the public debt — thereby generating interest savings from the reduced payments.

Clinton Budget Game: Fiscal Fiction

Fiscal Years 2000-2014

Budgets	On-Budget	Off-Budget	Unified Budget
Description	Official, by law	Social Security	Total Government
Gross Surplus	\$4.0 trillion	\$0.5 trillion	\$4.5 trillion
Federal Social Security Interest	- \$1.8 trillion	\$1.8 trillion	\$0*
Net Difference	\$2.2 trillion	\$2.3 trillion	\$4.5 trillion

* Intra-government transfer of interest is not scored on the Unified Budget because the money does not actually leave the government's books — but merely transfers from one set of books to another.

Clinton Big-Ticket Commitments

Budgets	On-Budget	Off-Budget	Unified Budget
Starting Balance	\$2.2 trillion	\$2.3 trillion	\$4.5 trillion
Social Security Commitment	-\$2.8 trillion	\$2.8 trillion	-\$2.8 trillion(?)
Medicare	-\$0.7 trillion		-\$0.7 trillion
USA retirement accounts	-\$0.5 trillion		-\$0.5 trillion
New Domestic & Defense Spending	-\$0.5 trillion		-\$0.5 trillion
Balance	-\$2.3 trillion	\$5.1 trillion	range from \$0 to \$2.8 trillion

(?): Clinton's Social Security payment from the general fund technically doesn't leave the government (see above *) so the transaction actually won't be scored as reducing the Unified Budget Surplus. This is recorded as a subtraction merely to show the "Clinton math."

Outcomes of Clinton's Budget

1) **Enormous on-budget deficit** — reversing what would have been an on-budget surplus of \$6 billion (according to CBO) in 2001 and beyond.

2) **Clinton claims both interest savings and reducing the public debt** and gets away with it because his \$2.8 trillion Social Security commitment is merely a "paper transaction" by which it is transferred from publicly held debt to government-held debt. The resulting interest payments are not recorded as leaving the government (see above *), so the budget shows a net reduction in the

interest payments (because the former interest payments — made to the public — were recorded as leaving the government). This recorded reduction in interest payments allows for substantial budget savings that go toward increasing the overall projected surplus of \$4.5 trillion.

3) This also allows for potentially trillions in new spending — on top of Clinton's formal proposals. Clinton's \$2.8 trillion Social Security commitment also technically does not leave the government — since it, too, is a transfer within government accounts (on-budget to off-budget). This means that the money is "available" for spending because the unified budget surplus will remain officially at \$2.8 trillion. The only thing barring this further spending is faith in Clinton's commitment.

Social Security Fraud: Increasing the I.O.U.s Now, not the Means to Pay Later

1) Social Security fraud: Clinton takes credit for the \$2.8 trillion I.O.U. to Social Security, and then uses this to claim he's extending the trust fund solvency date by 17 years — from the currently projected 2032 to 2049.

2) Clinton compounds this by claiming that of his \$2.8 trillion, \$0.7 trillion will be invested by the government in the private security market — and that the projected additional return will add another 6 years to the trust fund's solvency.

3) Clinton short-circuits real reform: He claims Social Security beneficiaries are secure for an additional 23 total years — to 2055. In fact, Social Security beneficiaries and the American taxpayer still face the same problem: Beginning in 2013, Social Security tax receipts will not be able to pay owed benefits. That means either reduced benefits or more taxes and/or more borrowing to pay them. The critical day of reckoning hasn't been moved back at all.

Bottom Line: Clinton's Ultimate Deception

- **More Spending:** Clinton gets hundreds of billions more in new spending immediately by claiming to have "solved" the Social Security problem, and thus freeing up \$1.7 trillion of the forthcoming \$4.5 trillion surplus. He also potentially has trillions more if he decides to tap into the \$2.8 trillion that he "committed" to Social Security but that remains on the unified budget books as a surplus.
- **Enormous On-budget \$2.3 Trillion Deficit:** Money that legitimately could have been used for needed taxpayer relief is — using Clinton's budget fiction — eliminated and replaced with a \$2.3 trillion deficit. In short, even if Congress managed hundreds of billions in actual budget savings — these would merely go to fill the on-budget hole Clinton is creating.
- **Social Security fraud:** The critical deficit date for Social Security is unchanged. Despite the myriad of dates surrounding Social Security, only one is crucial — the date at which it will be unable to pay its real debts with real money. That date remains 2013, when Social Security tax revenues no longer will meet required outlays. However, Clinton creates the false impression that the program is not only fine, but improved financially by staving off

by 23 years the date of insolvency. In fact, it is worse off if Clinton's deception allows people to ignore the real crisis.

President Clinton has played budget games since coming to office in 1993 — tax cuts promised but not delivered, budgets offered which he did not even attempt to balance, "triggers" intended to feign balanced budgets, phony savings from payment shifts, etc. However, the deception and deceit in this year's budget are worse than all those put together.

If Clinton's fiscal fiction is allowed to stand, it renders meaningless the government's attempt to budget at all . . . or to seriously address Social Security and the other long-term financial pressures facing our nation's economic security.

Staff Contact: Dr. J.T. Young, 224-2946